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RETRENCHMENT IN NATIONAL EXPENDITURE

R. C. LEFFINGWELL

Formerly Assistant Secretary of the Treasury

I. The Evil of Government Expenditure

SECRETARY MELLON in his letter of April 30th to Congressman Fordney, Chairman of the Committee on Ways and Means of the House of Representatives, said:

Ordinary expenditures for the first three quarters of the fiscal year 1921 have been \$3,783,771,996.74, or at the rate of about \$5,000,000,000 for the year. . . . According to the latest estimates of the spending departments, . . . ordinary expenditures during the fiscal year 1922, including interest on the public debt, will be over \$4,000,000,000.

The Nation can not continue to spend at this shocking rate. As the President said in his message, the burden is unbearable, and there are two avenues of relief, "One is rigid resistance in appropriation and the other is the utmost economy in administration."

Why should there be retrenchment in public expenditure? Why does the Secretary of the Treasury speak of current and estimated expenditures as shocking? What is the evil that we are discussing and what is its effect?

Government expenditures must be met from taxes. To the extent that they are met promptly from taxes and from honest taxes directly laid upon the incomes of the people, and in proportion to those incomes, exaggeration of the evil of government expenditure is avoided. But the evil itself cannot be avoided. Government expenditure takes the money of all the people for the supposed benefit of a portion of the people, honestly or dishonestly, equally or unequally, avowedly by direct taxation, or surreptitiously by the indirect taxation which results from inflation of currency and credit and of the public debt. Government expenditure takes the fruits of the earth and the labor of the people and diverts them from the productive and reproductive enterprises of men, from the natural enjoyment of the men who by their prudence, foresight and effort created the wealth or made it available, to the sometimes benevolent and sometimes belligerent, but al-

most always economically wasteful, purposes of government. Government exploits all of us for the benefit, or supposed benefit, of some of us. Yielding to the vague aspirations of men for a better world or a better distribution of the good things of this earth, government imposes upon all of us ever-increasing burdens in the effort to benefit vociferous and organized minorities.

The government is to give every man a pension, and every man an office, and every man a tax to raise the price of his product, and to clean out every man's creek for him, and to buy all his unsalable property, and to provide him with plenty of currency to pay his debts, and to educate his children, and to give him the use of a library and a park and a museum and a gallery of pictures. On every side the doors of waste and extravagance stand open; and spend, squander, plunder, and grab are the watchwords.

Who pays for it all? The system of plundering each other soon destroys all that it deals with. It produces nothing. Wealth comes only from production, and all that the wrangling grabbers, loafers, and jobbers get to deal with comes from somebody's toil and sacrifice. Who, then, is he who provides it all? Go and find him and you will have once more before you the Forgotten Man. You will find him hard at work because he has a great many to support. Nature has done a great deal for him in giving him a fertile soil and an excellent climate and he wonders why it is that, after all, his scale of comfort is so moderate. He has to get out of the soil enough to pay all his taxes, and that means the cost of all the jobs and the fund for all the plunder. The Forgotten Man is delving away in patient industry, supporting his family, paying his taxes, casting his vote, supporting the church and the school, reading his newspaper, and cheering for the politician of his admiration, but he is the only one for whom there is no provision in the great scramble and the big divide.

These words were spoken in 1883 by William Graham Sumner, a great sociologist, economist and teacher, who left the impress of his thought and personality upon generations of Yale men.¹ His words are true now as they were 40 years ago, but the evil has been multiplied ten-fold.

II. *The Lesson of History*

During the hundred years preceding the great war Europe had been indulging progressively in unsound economic policies. Government ownership of railroads and public utilities, old age pensions, shipping subsidies and preparedness for war, bur-

¹ "The Forgotten Man and Other Essays," *Yale University Press*.

dened the populations of the old world with a tax-load so great that the only hope for the continental belligerents lay in a brief war of conquest which should render available to the victor the resources of the vanquished. But the war was so long, and the economic burdens which preceded and resulted from the war were so great, that the available resources of both victor and vanquished were exhausted and victory itself was only less disastrous than defeat.

Writing about the situation in Europe in 1903, Professor Sumner said:

Never, from the day of barbarism down to our own time, has every man in a society been a soldier until now; and the armaments of today are immensely more costly than ever before. There is only one limit possible to the war preparation of a modern European state; that is, the last man and the last dollar it can control. What will come of the mixture of sentimental social philosophy and warlike policy? There is only one thing rationally to be expected, and that is a frightful effusion of blood in revolution and war during the century now opening. . . .

At the beginning of the twentieth century the great civilized nations are making haste, in the utmost jealousy of each other, to seize upon all the outlying parts of the globe; they are vying with each other in the construction of navies by which each may defend its share against the others. What will happen? As they are preparing for war they certainly will have war. . . .

War, in the future will be the clash of policies of national vanity and selfishness when they cross each other's path. . . .

What has just been said suggests a consideration of the popular saying, "In time of peace prepare for war." If you prepare a big army and navy and are all ready for war, it will be easy to go to war; the military and naval men will have a lot of new machines and they will be eager to see what they can do with them. There is no such thing nowadays as a state of readiness for war. It is a chimera, and the nations which pursue it are falling into an abyss of wasted energy and wealth. When the army is supplied with the latest and best rifles, someone invents a new field gun; then the artillery must be provided with that before we are ready. By the time we get the new gun, somebody has invented a new rifle and our rival nation is getting that; therefore we must have it, or one a little better. It takes two or three years and several millions to do that. In the meantime somebody proposes a more effective organization which must be introduced; signals, balloons, dogs, bicycles, and every other device and invention must be added, and men must be trained to use them all. There is no state of readiness for war; the notion calls for never-ending sacrifices. It is a fallacy. It is evident that to pursue such a notion with any idea of realizing it would absorb all the resources and activity of the state; this the great European states are now proving by experiment.¹

1 "War and Other Essays," Yale University Press.

These were Sumner's prophetic words written ten years before the outbreak of the great war.

During the same hundred years America remained relatively aloof from socialistic experimentation and from war preparation. So America remained the land of opportunity. With great natural resources, underpopulated, bounded on the north by Canada and protected along that vast frontier not by fortifications but by an agreement to have none, bounded on the south by Mexico and protected along that frontier by the weakness of its neighbor, bounded on the east and west by the Atlantic and Pacific Oceans and protected by them, blessed by a Constitution devised in distrust of governments, with deliberate intent to hobble the power of that Federal Government which it created, America was the happy and prosperous home of the descendants of the pilgrims who came here 300 years ago and the promised land of those who were borne down by the intolerable economic and social conditions of Nineteenth Century Europe.

In the great war the decision rested with the men and the resources of the new world. The Allies were able, with the aid of the untaxed and untrained manhood and wealth of Great Britain's overseas empire, to hold the field until America entered the fray, and then our unmortgaged resources and the splendid armies we created from a citizenship whose spirit had not been broken nor its physique undermined by military or economic servitude, broke the deadlock. The victory left both victor and vanquished in continental Europe in acute distress, impaired the power for good or ill of our other associates in the war, Great Britain and Japan, and made the United States, though absolutely poorer no doubt, yet relatively richer and stronger than she was before the war, and indeed by all odds the richest, strongest and most fortunate of the nations of the earth.

III. *What and Why We Spend*

What have we learned from European history? What advantage have we taken of this unique position? None at all. Though before the war the Government of the United States spent about \$1,000,000,000 a year for all purposes, including interest on the public debt, in the fiscal year ended June 30,

1920, the first full fiscal year after fighting stopped, the Government spent \$6,400,000,000; in the fiscal year 1921 it will spend \$5,000,000,000;¹ and in the fiscal year 1922 it will spend more than \$4,000,000,000, says Secretary Mellon. These figures include interest on the public debt, which amounts to about \$1,000,000,000, but include nothing for sinking fund or other debt redemption. Excluding both interest and sinking fund, the government will spend more than four times as much this fiscal year, and more than three times as much next fiscal year, as it spent before the war. Why should victory impose these heavy charges upon the victor? Are these expenditures wise and necessary? What can be done to curtail them? How does it happen that, though successive Presidents and Secretaries of the Treasury argue and plead for economy, even demand it, and the people clamor for it, yet there is no economy?

Each of the executive departments is concerned to improve its service and to discover new and useful fields of service. The entire organization of the Army, of the Navy, of each of the departments, independent offices and agencies of the Government, is devoted to an important task. Its particular function seems of vital usefulness, even necessity. Experts in each are alive to its defects and to the opportunities for usefulness which have not been availed of. The secretary, or other head of the department, drawn from private life, perhaps wholly ignorant at the outset of the nature and extent of its problems, promptly becomes the advocate of the policies and demands of his permanent assistants and bureau chiefs. If he does not become such advocate, he may break down the morale of his organization and possibly lose the confidence of his personnel. If he vetoes their demands for appropriations, he must assume sole personal responsibility for any failure of his department to meet the needs of the situation. If he accepts their estimates and submits them to Congress, Congress must take the responsibility of granting or rejecting them.

In Congress, the work is done in committees, and the only committees familiar with the problem are those specially created for the purpose, the Committee on Military Affairs for the War Department, the Committee on Naval Affairs for the Navy Department, etc., etc. These committees soon become special advocates of the departments whose affairs are committed to

¹ It did spend \$5,115,927,689.30.

their charge, following the natural human instinct to magnify the importance of the work in which they are engaged.

Behind it all is the pressure of organized interests in the constituencies, which are the beneficiaries of specific expenditures, operating upon politicians, executive departments, Senators and Congressmen. The strident voice of greed is heard in the market place and in legislative halls; the voice of the people is barely audible. The glamour of a magnificent or beneficent undertaking helps to silence the outcry which might otherwise be raised on behalf of the general public. The fact that each project is considered separately, without reference, either in executive departments or Congress, to ways and means of financing it, prevents concentration of popular opinion on the awful total. All agree that there must be economy, but as each item is presented all seemingly agree that that is not the proper field for economy. There must be economy, but there must be a merchant marine, whatever the cost. There must be economy, but the government must pay high wages to railroad employees and furnish transportation on the railroads at less than cost. There must be economy, but the world-war soldiers must have their bonus. There must be economy, but Civil War pensions must be increased. There must be economy, but we must prepare for war, regardless of expense.

IV. *The Budget*

It looks as though we should have a budget pretty soon. It will be of some help, and it is important that we should have it. The budget bill which Congress once passed and which is now in conference is a step in the right direction, but it has grave shortcomings.¹ A budget to be really effective should set out all the expenditures to be made by the government for the ensuing year and the revenues to meet them. The point is to concentrate attention at one time each year upon the aggregate of expenditure and the means of meeting it. The proposed budget legislation does not accomplish this, because it leaves Congress free, and through Congress the Executive, to initiate appropriations outside the budget at intervals during the year, and to authorize expenditures which need never appear in the budget, or in any appropriation at all, by the device

¹ This bill became law June 10, 1921.

of revolving funds, reimbursable appropriations, indefinite appropriations and government-controlled corporations.

The Constitution of the United States provides that "no money shall be drawn from the Treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." In the desire of Congress to authorize the disbursement of government funds and at the same time to make a record for economy, the devices mentioned have been used to exploit the public treasury without making a record of appropriation; and in consequence of these devices it has been impossible for the Treasury to make a true statement of the accounts.¹ Since the Constitution requires that no money shall be *drawn from the Treasury* without an appropriation, Congress authorizes spending departments and agencies to *withhold from the Treasury* the proceeds of the sale and use of government property and to spend them again.

Though the constitutional requirement that no money shall be drawn from the Treasury without an appropriation is thus successfully evaded, the constitutional requirement that a regular statement and account of receipts and expenditures shall be published is at the same time made impossible of performance. The Treasury does not correctly state the receipts or expenditures of the government of the United States, for the reason that it has no means of obtaining correct current information concerning the amount of receipts from the sale and use of government property or the disposition of such receipts. I do not think any government officer knows what is the aggregate amount of the receipts from the sale and use of government property during and since the war, nor to what extent the

¹ The Treasury does what it can to avoid misleading the public by printing the following on its monthly statements of classified expenditures of the government: "Note.—Because of legislation establishing revolving funds and providing for the reimbursement of appropriations, commented upon in the annual report of the Secretary of the Treasury for the fiscal year 1919, p. 126, ff., the gross expenditures in the case of some departments and agencies, notably the War Department, the Railroad Administration, and the Shipping Board, have been considerably larger than above stated. This statement does not include expenditures on account of the Postal Service other than salaries and expenses of the Post Office Department in Washington, postal deficiencies, and items appropriated by Congress payable from the general fund of the Treasury."

Treasury statements of receipts and expenditures have been unavoidably falsified in consequence of the action of Congress in authorizing the withholding from the Treasury of these moneys and their use without an appropriation. I should be very much surprised if the aggregate amount received by the War Department and the Navy Department from the sale of war munitions and supplies, etc., and by the Shipping Board from the sale and chartering of ships and property, and diverted to other purposes without passing through the Treasury, did not run well into ten figures. Mr. Gilbert,¹ the present Fiscal Assistant Secretary of the Treasury, my able successor, in an address in February last said:

The estimates for the current year, for example, show that over a billion dollars of expenditures were authorized by the last session of Congress in addition to the amount shown in the usual compiled statements of appropriations. In fact, the practice has reached such proportions as to be almost a national scandal, and it was vigorously denounced in the President's last annual message. It has become the first principle of strategy on the part of people interested in appropriations for various special purposes to frame the matter so as to authorize the use of the public funds indirectly, or in indefinite terms, or by authorization for expenditure of unexpended balances, perhaps appropriated originally for other purposes, or by authorizations to divert government receipts before they ever reach the Treasury. Efforts are made to find general words which do not speak in terms of appropriations and cannot be readily calculated. The last session of the present Congress, for example, authorized additional expenditures out of balances of prior appropriations and from receipts to the amount of over \$500,000,000, including over \$400,000,000 for the Shipping Board. The present session of Congress by similar procedure takes credit for refusing appropriations for the Shipping Board but, at the same time, proposes to authorize the expenditure of receipts in amounts that may reach as high as \$200,000,000. By the indefinite appropriation for the railroad guaranty about \$650,000,000 was in effect appropriated without appearing in any of the statements of appropriations.²

Though the pending budget bill is a step in the right direction, the following are the fundamental principles of sound budget and audit legislation and should not be forgotten:

(1) All expenditures should be authorized at one time, and the taxes to meet them should be provided at the same time.

(2) No appropriations should be asked or estimates sub-

¹ Now The Under-Secretary of the Treasury.

² See also Secretary Glass's *Annual Report*, 1919, pp. 126-132.

mitted by the Administration without examination and report as to ways and means by the Secretary of the Treasury, the member of the Administration charged with the responsibility of financing them, or, if he disapproves, the approval of the President after hearing his objections; and in the latter case it should be the duty of the President himself to point out ways and means.

(3) No estimates should be approved or appropriations made by Congress without examination and report as to ways and means by the Ways and Means Committee of the House and the Finance Committee of the Senate, the committees of those Houses severally charged with responsibility for revenue bills.

(4) No expenditures should be authorized without an appropriation. Executive departments and agencies of the government should be required to turn into the Treasury every dollar received from the sale or operation of government property and to obtain specific appropriations for every dollar to be spent.

(5) The practices of making indefinite appropriations as in the Transportation Act, 1920; and of granting subsidies, without an appropriation, by the device of tax exemption, as in the Merchant Marine Act, 1920, should be prohibited.

(6) There should be a prompt field audit, not directed merely, as at present, to discovering, long after the fact, whether there has been actual misappropriation of government money, but directed also to discovering whether there has been inefficiency, duplication or waste. This audit should be conducted by permanent officials free from the interference of changing administrations or congressional majorities or committees.

V. Where the Money Goes

The money certainly does not go to overpaying government employees. On the contrary, there is urgent need for higher pay and a greater number of supervisory employees. The instinct of Congress, whenever the work of a department falls so far behind as to receive their consideration, is to authorize the addition of a large number of low-paid employees. This is very much more expensive for the government, both in the matter of pay-roll and also in the matter of providing space and materials and equipment for them, than would be the

employment of supervisory employees clever enough to devise economies of time and method which would make additional subordinate employees unnecessary. The present method prevents the employment of one \$10,000 man whose skill and ingenuity in effecting economies and expediting the work under his direction might render unnecessary the employment of five hundred \$1,000 men, not to mention the space, material and equipment which they use. Congress is penny-wise and pound foolish!

But important as it is to have a sound budget and audit system, and to effect any possible economies in administration, no well informed person believes that these could possibly reduce expenditures by more than one or two per cent. They may stop some relatively unimportant leaks but the bung-hole is open—wide open. Assistant Secretary Gilbert in his speech before referred to said:

There has been much idle talk to the effect that the excessive cost of government is due to inefficiency and extravagance in the executive departments. Without doubt, there has been waste and inefficiency in the various government departments and establishments, and much can be accomplished, and has already been accomplished, by the introduction of efficient and economic methods of administration and the elimination of duplication and unnecessary work. It might well be possible to save as much as \$50,000,000 or \$100,000,000 by careful and scientific reorganization of the government's business. It is futile, however, to expect that any reorganization of government departments will effect a relatively substantial reduction of expenditures.

The figures show that over 90 per cent of the total annual expenditures of the government are related to war. Out of total expenditures during 1920 of about \$6,400,000,000, about 5¾ billions represented expenditures directly traceable to the war, to past wars, or to preparedness for future wars. Of these, about \$2,500,000,000 went for the Army and Navy, over 500,000,000 for the Shipping Board, over \$1,000,000,000 for the railroads, another \$1,000,000,000 for interest on the public debt, almost \$500,000,000 for purchase of obligations of foreign governments on account of their war expenditures, and the remainder for pensions, war risk allotments, and miscellaneous items related to war. An analysis of the expenditures for the first six months of the current fiscal year gives similar results. The figures also show that the total cost of running what may be termed the civil establishment proper, that is to say, the various government departments, boards and commissions and the Legislative establishment, have not much exceeded \$250,000,000 even in the abnormal war years.

Let us consider in some detail the principal items of government expenditure.

Merchant Marine. The government expenditure of some
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billions on ships and shipyards has resulted in no return whatever to the Treasury. The proceeds of sale and operation (including operations during the period when there was a shortage of ships and freight rates were inordinately high) have been devoted to new construction or to meeting operating deficits. So the official figures for the post-armistice period, which show expenditures by the Shipping Board for the fiscal year 1920 of only \$530,000,000 for 1921 (partly estimated) of 100,000,000 and for 1922 (estimated) of 125,000,000

or a total of \$755,000,000 grossly understate them.¹

We made up our minds to have a merchant marine at any cost and to create ports and trade routes where there were none. Ships were set sailing from ports and over routes which were not justified by business demand. If the business had been there, private capital would have been found to supply the need. The business was not there, so the government stepped in and provided transportation for fortunate shippers over unprofitable routes and made seaports of places which had harbors but no business—at the expense of the taxpayers. After armistice the government went on building ships at war costs of labor and materials, using the taxpayers' money to create tonnage. It created a vast tonnage in the effort to make a well-balanced fleet, whatever that may mean, with the result that, after the effect of war and post-armistice inflation had disappeared, the surplus tonnage, created with the taxpayers' money, greatly aggravated the depression in the shipping business, and tens of millions of dollars worth of hulls are grinding themselves to pieces. If we want a merchant marine, we shall have it. A little matter of expense to a hundred million

¹ Mr. Lasker, the new Chairman of the Shipping Board, in a refreshingly frank statement published in the *New York Times* and other papers on July 19, 1921, estimated the expenditures of the Shipping Board for the fiscal year ended June 30, 1921, alone at \$680,000,000, of which \$200,000,000 he estimated was derived from the sale of ships and other capital assets and \$300,000,000 from the operation of ships. He condemned in no measured terms the accounting methods which I have criticised and promised to put an end to them. He estimated, however, that he would have to ask Congress for \$300,000,000 for the fiscal year 1922.

people will not stand in their way. And the voices of Senators and Congressmen from the places where shipyards are owned by the government, and from seaports created by executive fiat, and from districts benefited by the maintenance of artificial and uneconomic trade routes, are lifted in support of the program of waste.

But in the long run, after billions have been wasted, economic law will have its way. Uncle Sam will grow tired of maintaining a merchant marine which costs more than it is worth. American exporters are interested in having their goods shipped as cheaply as possible to foreign ports, so that they may compete as favorably as possible with foreign goods. American workmen will not sail the high seas if they can get good jobs at home for the same pay. Ships for serving foreign trade will be built in the countries where the cost of construction is lowest, they will be manned by seamen drawn from the countries where opportunity for profitable employment at home is not ample.

We had our great day on the high seas before the Civil War. We could compete with any in building wooden ships, and, before the great development of the nineteenth century had opened up this vast continent for exploitation, the life of the pioneers on the eastern seaboard was not so easy but what they were glad to take to the life of the sea. Stern nature drove our American pioneers to the sea, drove Norsemen to the sea, and drove Dutchmen to the sea. Over-population and concentrated land-holdings drove Englishmen to the sea. Since the Civil War a rich continent to exploit and ample facilities for its exploitation, have kept Americans at home; while the substitution of steel ship construction, and high prices for the American product, made possible by protection, have kept us out of shipbuilding. It costs more to build American ships and it costs more to man them with Americans. American built and manned ships cannot be run in competition with foreign ships except at a loss. Do we want our own merchant marine badly enough to be willing to accept that loss and throw the burden on the taxpayers?

Before the war we had a "favorable" balance of trade, that is to say, our visible exports exceeded our visible imports. This favorable balance was greatly increased during the war

and the early post-armistice period. The over-populated old world needs our goods. Fertile America should produce more than she consumes. She must do so, or leave the world's war problem to be solved by shifting the balance of population from the old world to the new by the processes, now in operation, of starvation and emigration. The pre-war balance of trade in our favor was taken care of by Europe's "invisible" credits: interest charges due from America to the old world, freight and insurance charges, banking charges, immigrants' remittances, travellers' expenditures, etc., etc. We cannot sell everything and buy nothing. We must leave our customers some means of payment. The international account must be balanced, if not in goods, then in services and remittances. Because we have had and should have a "favorable" trade balance, having a surplus and Europe a deficiency of food and raw materials, because we have since the war become the world's creditor, the inexorable logic of the situation demands that Europe make payment for her purchases increasingly in services. So Europe will be able to underbid us in the matter of freights.

Railroads. When the government took over the railroads in wartime it did a very good job in moving men and munitions, which the railroads under private management through no fault of theirs had failed to do. But after the armistice, the government blundered greatly in its handling of the railroad problem. In the fiscal year 1920, including some \$300,000,000 of Certificates of Indebtedness issued towards the end of the fiscal year 1919 and paid in the fiscal year 1920, the government spent on the

railroads upwards of	\$1,000,000,000
Secretary Mellon estimates that in the fiscal year 1921 it will spend	800,000,000 ¹
and in the fiscal year 1922	550,000,000

making a total of \$2,350,000,000
or nearly as much as the government's entire floating debt today, spent on the railroads after armistice was signed. There was no reason why the railroads should not have been made to

¹ Actual \$730,711,698.98, plus \$65,575,832.03 resulting from settlement with Post Office department.

pay for themselves under government control. Higher rates would have exercised a healthy check upon inordinate demands for transportation through the period of post-armistice inflation. Artificially low rates exaggerated the congestion on the railroads during that inflation period. Goods were brought from more remote points which should have been consumed at or nearer home. Goods were moved by rail which should have been moved by water or by truck. The resulting congestion on the railroads caused delay in the receipt of goods by the consumer and consequently in payment. Credit was inflated because of the congestion on the railroads and inflated again by the increase in the public debt to meet the railroad deficit. This inflation was an important factor in the rapid increase of prices in 1919 and early 1920.

It was characteristic of government's muddling in business that the government waited until the inflation boom was over in the summer of 1920 to increase railroad rates. Higher rates during the inflation period would have been a source of profit to the railroads, would have saved the Federal Treasury from all outlay, and would have exercised a healthy check upon the inflation itself. During the inflation period railroad transportation was in under-supply and over-demand. If the law of supply and demand had been given free play railroad rates would have risen promptly, and the very rise in rates would have tended to redress the balance. The heavy hand of government sought, effectively for a time, to prevent the operation of that law. It was not until the inflation boom was over and the chance for the railroads to make money out of high rates disappeared, that the government increased rates. But it increased wages too with a lavish hand. The rates were unproductive of revenue because the business was not there. The wages had to be paid. Now the market for transportation is like the market for anything else. You must take advantage promptly of your opportunities, charge high rates when the demand exceeds the supply and be in a position to reduce rates in the effort to stimulate or at least sustain business when the demand falls off. The government's interference in the railroad situation exaggerated the inflation of the post-armistice period and exaggerated the depression which set in during the summer of 1920. Railroad rates were too low when business

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was booming and rates and wages both too high when business was falling.

The credit of the railroads themselves was impaired by running them at a loss. The basis of railroad credit was, of course, their earning power. The investor found small comfort, against the actuality of railroad deficits, in the government's guaranty, which he knew must come to an end. Consequently the weaker roads could not borrow at all, except from the government, the stronger could borrow only upon exorbitant terms, and none whatever could sell shares of stock. The railroads of the country will not again be in a sound financial position until they have earnings sufficient to enable them to pay dividends at rates so high as to make their stocks worth par or more. When they can do that, and they can by the sale of additional stock obtain a fair proportion of their capital requirements in that manner, the railroads will be in good shape. Broadly speaking, the railroads of the country are over-bonded and under-stocked.

What is the explanation of this almost unbelievable blunder in the government's management of the railroads? The government's course in the period in question was determined at one stage or another by the Railroad Administration, Congress and the Interstate Commerce Commission, by Democrats and by Republicans. They proceeded in good faith and with the best intentions. At the root of the mistake are to be found two things: first an error of judgment as to the economic consequence of furnishing transportation at less than cost. Undoubtedly the government believed that an increase in railroad rates would result in an increase in the cost of living, though the reverse was the fact. In the second place, the highly organized shippers of the country were an enormously powerful body and exerted their influence to keep rates down for their own profit.

When the consequences of this policy became apparent and the railroads were about to be returned to private ownership, savings banks and other railroad security holders, who were highly organized, presented their demand for protection to Congress forcibly and effectively. The trunk-line railroads were highly organized and presented to Congress their demand that the railroads be returned in at least as good condition as that in which they were taken over. Both of these claims had

merit. The trunk-line railroads having established their claim to be indemnified for the consequences of government control during the war and after, the short line railroads, also highly organized, presented their claim to be indemnified for *not* having been taken over during the war. And the public pays in inflation of the public debt, in congestion of traffic, in inflation of currency and credit, and finally in taxes.

War. Of the \$4,000,000,000, exclusive of interest on the public debt, to be spent in the fiscal year 1921, \$1,025,000,000¹ will be spent by the War Department, \$700,000,000² by the Navy Department, \$800,000,000 on the railroads, \$230,000,000 by the Bureau of War Risk Insurance, and \$325,000,000³ by the Interior Department, mostly, I take it, for Civil War and Spanish War pensions—a total of \$3,080,000,000 under these heads.

In the fiscal year 1920 the War Department spent	\$1,610,000,000
the Navy Department	740,000,000
a total of	\$2,350,000,000
Secretary Mellon estimates that in the fiscal year 1921 the War Department will spend ...	\$1,025,000,000
and the Navy Department	700,000,000
a total of	\$1,725,000,000
and that in the fiscal year 1922 the War Department will spend	\$ 570,000,000
and the Navy Department	545,000,000
a total of	\$1,115,000,000
3 years total	5,190,000,000

Germany went to war to realize on her investment in arms and armies. The burden of universal military service, expenditures on the army and navy, subsidies and doles, became intolerable. She thought she would repeat the exploit of 1870 and make war so profitable in territory and indemnities as to recoup herself for the outlay of 40 years preparation. The splendid resistance of the Belgians and the French and of the little British expeditionary force made the short war a futile

¹ Actual \$1,101,615,013.32.

² Actual \$650,373,835.58.

³ Actual \$357,814,897.01.

dream. The untrained manhood and unmortgaged resources of the western world, of the British empire overseas, and finally of America, determined the issue. Germany suffered economic collapse, though her armies, beaten but not routed, were still on enemy soil. So Germany's military preparedness was her cause for making war and was the cause of her defeat. In the issue, it was economic preparedness that mattered most.

Today men, women and little children are starving to death in Europe because of the war's horrible waste and because of the still more horrible waste of after the war. Two years and a half after armistice, nearly two years after peace was concluded between Germany and the Allies, millions of men are under arms, eating and wearing the produce of the fields and of the labor of a civilian population which must bear the load of taxes and inflation necessary to maintain those armies in economic idleness. The peoples of continental Europe are staggering under the load of armaments, far too great before the war and intolerable now. Their rulers hold themselves in power by subsidies and doles, by playing, now on their fears, again on their avarice, still again on nationalistic ambitions or ancient racial hatreds. The Allies have undertaken to insure Germany's economic recovery by insisting upon her disarmament and the payment of reparations which means the development of a huge export balance; but for themselves they reserve the doubtful privilege of remaining armed to the teeth. America, protected by the high seas from every formidable foe, rattles her sabre as the Prussians used to do, demands a navy second to none, talks of universal military training, asserts that she will have her rights, though no one challenges them, thunders for the open door and plays dog in the manger in South America in the name of President James Monroe.

We have demonstrated our military power. We have shown what may be done in a few short months to make an army and transport it to wage a foreign war. We have no need to be aggressors abroad, we are invulnerable at home. Let us accept the responsibilities of the position of leadership which is ours, show the world how to beat swords into plow-shares, relieve the peoples of the world of apprehension and lead them back into the ways of peace and plenty. If we prepare for war we shall have it. If we lead the world in preparation for peace we may have that.